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UNCLAS TEGUCIGALPA 003491

SIPDIS

SENSITIVE

STATE FOR INR/B, WHA/CEN, WHA/EPSC, EB/IFD/OMA
TREASURY FOR JOHN JENKINS
STATE PASS TO USAID, USTR, EXIM, OPIC, USED IDB, USED WB,
USED IMF

E.O. 12958: N/A

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SUBJECT: BANCO CAPITAL LIQUIDATED; SOGERIN TO BE SOLD

REF: TEGUCIGALPA 1540

1. (SBU) Summary. The National Banking and Insurance Commission announced on December 20 the forced liquidation of Banco Capital, which had been under government supervision since May 17. Banco Ficohsa acquired the deposits worth approximately USD 43 million. The GOH authorized the transfer of approximately USD 30.7 million from accounts of the state-owned telephone company Hondutel to Banco Ficohsa to guarantee the deposits. Banco Sogerin, the other bank under government supervision, will be sold in February, after completion of an appraisal of its assets. End summary.

2. (U) On December 20, Ana Cristina Mejia de Pereira, President of the National Banking and Insurance Commission, announced the liquidation of Banco Capital which, along with Banco Sogerin, had been under the supervision of the Honduran Deposit Insurance Fund (Fosede) since May 17 after the bank was found to be undercapitalized and have high levels of related lending and a deteriorating loan portfolio (see reftel).

3. (SBU) In a December 30 meeting, Pereira told Econcouns that the government-appointed supervisors discovered previously unknown non-performing loans and new cases of insider lending that had increased the bank's insolvency, pushed the bank's legal reserve requirement beneath the minimum six percent as required by law and ultimately forced the liquidation of Banco Capital. The Commission is preparing an exhaustive report on evidence of violations by Capital's principal shareholder, Ivis Lopez, to assist the Public Ministry in pressing charges. Pereira confided that the original plan was to liquidate Banco Capital last May when the bank was intervened. However, due to concerns that closing two banks at that time could cause significant amount of capital flight from several other banks, the Banking Commission decided to hold off liquidating Capital to avoid a banking crisis.

4. (SBU) Banco Ficohsa acquired Capital's deposits worth 730 million lempiras (approx. USD 43 million). Due to low offers, the loan portfolio was not sold. The government hopes to recover approximately USD 100,000 through the sale of the remaining assets. Fosede, which is required by law to guarantee deposits up to 150,000 lempiras, originally had set aside only 213 million lempiras (approx. USD 12.6 million) to guarantee the deposits. After the sale of the assets, the Council of Ministers agreed to transfer 517.7 million lempiras (approx. USD 30.7 million) from the accounts of the state-owned telephone company Hondutel to cover the remaining Capital deposits. Honduran law requires the government to guarantee 100 percent of the deposits until September 2003. Pereira believes the final cost will be lower (currently, Ficohsa is reporting that most Capital depositors are leaving their accounts open).

5. (SBU) Pereira commented that Banco Sogerin's recapitalization effort was more successful. As opposed to Capital, which had many outstanding loans in the agriculture sector and few assets, Sogerin possessed properties and other assets which helped the government-appointed supervisors make the bank solvent. The Banking Commission has commissioned an appraisal of plans Sogerin's worth, due to be completed in February. It will be sold shortly thereafter. So far Honduran bank Occidente, regional bank LAFISE and Salvadoran bank Cuscatlan have all expressed interest in acquiring Sogerin.

6. (SBU) Pereira also remarked that implementation of Basel rules on capitalization requirements will lead to eventual bank mergers. Banco Futuro and the Armed Forces Bank (BANFFAA) are both reportedly up for sale. Shareholders in Banco del Pais, in contrast, have chosen to add funds as part of a recapitalization effort.

7. (SBU) Comment: Although not mentioned during briefings for the press or donors, the November IMF mission apparently urged immediate closure of Capital and quick sale of

Sogerin. Pereira appeared confident that the current financial sector measures will satisfy the Fund. End comment.

Palmer